MV Capital Management Weekly Market Flash

The Pullback that Still Isn't

May 17, 2013

As of the market close on Wednesday of this week the S&P 500 had appreciated by more than 22% in price terms from November 15, 2012. What's special about November 15? It was the date when the market pullback that began a couple months earlier reached its low point. From September 14 to November 15 of last year the S&P 500 lost 7.7%, bottomed out and began the steep, sustained climb leading to where we are today.

What Goes Up…

These ebbs and flows are what market analysts are looking at when they toss around terms like "correction", "bull/bear cycle" or simply "pullback". You're hearing a lot of this these days, because when things go into the stratosphere the question on everyone's mind is when they're going to come back to earth – and how hard the landing will be.

We think it's worth a look at the data. The question to ask is this: is the 22% run-up over the 180-plus days from November to May an extreme data point, one that is more likely than not to result in a huge pullback, even a technical correction of 10% or more? Or is it within the range of other bull runs? In questions like this context is everything.

How Long?

The 181 days from November 15 to May 15 is certainly on the long side of bull runs. From the beginning of 1990 the average duration for an uptrend (i.e. from trough to peak) after a drop of 5% or more was 75 days, so our 181 day run as of May 15 is more than double the average. But it's far from the longest – that would be a whopping 533 days, from December 1994 to May 1996.

How High?

What about in terms of how far we have soared? Well again, the average run-up after a 5%-plus contraction over this 23 year period was just under 14%, so our 22% return to May 15 is on the high end. But again, it's not an outlier. That 533 day run in 1994-96 ran up a return of 52% to the peak. And even then the subsequent pullback was a fairly modest fall of -7.6% over a two month period before things turned up again – for another 209 days!

Growth or Gap?

We're looking at data points from the 1990s as well as the more recent environment because we are in a sort of limbo between growth and gap market conditions. We're clear of the previous records on the S&P 500 (1527 in 2000 and 1565 in 2007), but we're not yet sure we're going to clear those bars for once and all. So we need to pay attention to how bull and bear cycles work in both environments and factor that into how we keep ourselves positioned. The fear impulse – running for cover when most of the damage has already been done – is never a good idea, but it can be especially harmful in a growth environment where the losses are more likely to be brief and contained – and where traditional safe haven markets look particularly unappetizing. For now, as far as equity markets are concerned, no news is good news.

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